

**STEBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the
County of Steuben, New York)**

**Financial Statements as of
December 31, 2010 and 2009
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

**STEUBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)**

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INDEPENDENT AUDITORS' REPORT

ROCHESTER, 2011

To the Human Services, Health and Education Committee of the
County Legislature of the County of Steuben New York:

We have audited the accompanying financial statements of Steuben County Health Care Facility (the Facility), an enterprise fund of the County of Steuben, New York, as of December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Steuben County Health Care Facility and do not purport to, and do not present fairly the financial position of the County of Steuben, New York, as of December 31, 2010 and 2009, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steuben County Health Care Facility of the County of Steuben, New York as of December 31, 2010 and 2009 and the change in net assets and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

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STEBEN COUNTY HEALTH CARE FACILITY
 (An Enterprise Fund of the County of Steuben, New York)

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ -	\$ 1,594,720
Resident accounts receivable, net	1,107,704	2,219,825
Other receivables	125,370	138,199
Inventory	34,468	36,405
Prepaid expenses	<u>7,508</u>	<u>423</u>
Total current assets	<u>1,275,050</u>	<u>3,989,572</u>
NONCURRENT ASSETS:		
Bond issuance cost, net	45,030	48,032
Resident funds held in trust	42,866	39,260
Amounts due from third-party payors	2,260,299	1,461,465
Capital assets, net	<u>17,747,707</u>	<u>18,575,176</u>
Total noncurrent assets	<u>20,095,902</u>	<u>20,123,933</u>
Total assets	<u>\$ 21,370,952</u>	<u>\$ 24,113,505</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Cash overdraft	\$ 1,244,211	\$ -
Current portion of bonds payable	795,000	765,000
Accounts payable	215,406	223,370
Current portion of accrued compensation	299,315	245,510
Accrued workers compensation payable	228,854	-
Accrued interest payable	249,985	261,459
Current portion of estimated arbitrage liability	<u>-</u>	<u>225,000</u>
Total current liabilities	<u>3,032,771</u>	<u>1,720,339</u>
NONCURRENT LIABILITIES:		
Bonds payable, net of current portion	15,435,500	16,231,200
Resident funds held in trust	42,866	39,260
Accrued postemployment benefit obligation	860,888	499,388
Estimated arbitrage liability, net of current portion	73,287	25,000
Accrued compensation, net of current portion	440,625	430,079
Amounts due to third-party payors	<u>-</u>	<u>383,611</u>
Total noncurrent liabilities	<u>16,853,166</u>	<u>17,608,538</u>
Total liabilities	<u>19,885,937</u>	<u>19,328,877</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,517,207	1,578,976
Unrestricted	<u>(32,192)</u>	<u>3,205,652</u>
Total net assets	<u>1,485,015</u>	<u>4,784,628</u>
Total liabilities and net assets	<u>\$ 21,370,952</u>	<u>\$ 24,113,505</u>

The accompanying notes are an integral part of these statements.

STEBEN COUNTY HEALTH CARE FACILITY
 (An Enterprise Fund of the County of Steuben, New York)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Net resident service revenue	\$ 9,054,186	\$ 9,218,619
Outpatient service revenue	96,502	46,537
Adjustment of prior years' revenue, net	389,017	3,201
Other operating revenue	93,759	284,208
Intergovernmental transfer	<u>-</u>	<u>359,296</u>
Total operating revenues	<u>9,633,464</u>	<u>9,911,861</u>
OPERATING EXPENSES:		
Salaries and wages	5,721,042	5,513,378
Employee benefits	3,209,605	2,596,938
Supplies and other	1,828,812	1,669,881
New York State assessment	461,081	397,442
Depreciation and amortization	866,553	872,347
Provision for doubtful accounts	161,934	137,600
Indirect county costs	<u>428,647</u>	<u>378,044</u>
Total operating expenses	<u>12,677,674</u>	<u>11,565,630</u>
Operating loss	<u>(3,044,210)</u>	<u>(1,653,769)</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	(685,051)	(714,900)
Interest income	3,746	16,121
Gain (loss) on sale of capital assets, net	<u>(2,745)</u>	<u>10,104</u>
Total nonoperating expenses	<u>(684,050)</u>	<u>(688,675)</u>
LOSS BEFORE COUNTY SUBSIDIES	(3,728,260)	(2,342,444)
COUNTY SUBSIDIES	<u>428,647</u>	<u>378,044</u>
CHANGE IN NET ASSETS	(3,299,613)	(1,964,400)
NET ASSETS - beginning of year	<u>4,784,628</u>	<u>6,749,028</u>
NET ASSETS - end of year	<u>\$ 1,485,015</u>	<u>\$ 4,784,628</u>

The accompanying notes are an integral part of these statements.

STEUBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 9,237,322	\$ 9,046,316
Cash paid to suppliers	(1,058,794)	(2,534,297)
Cash paid to or on behalf of employees	<u>(8,275,942)</u>	<u>(7,971,158)</u>
Net cash flow from operating activities	<u>(97,414)</u>	<u>(1,459,139)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayment of bonds payable	(765,000)	(735,000)
Interest paid	(697,224)	(726,625)
Decrease in assets whose use is limited	-	823,556
Proceeds from sale of capital assets	-	10,104
Purchase of capital assets	<u>(38,828)</u>	<u>(58,029)</u>
Net cash flow from capital and related financing activities	<u>(1,501,052)</u>	<u>(685,994)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest income	<u>3,746</u>	<u>16,121</u>
Net cash flow from investing activities	<u>3,746</u>	<u>16,121</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(1,594,720)	(2,129,012)
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,594,720</u>	<u>3,723,732</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ -</u>	<u>\$ 1,594,720</u>
RECONCILIATION OF LOSS FROM OPERATIONS		
TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Loss from operations	\$ (3,044,210)	\$ (1,653,769)
Adjustments to reconcile loss from operations		
to net cash flow from operating activities:		
Depreciation and amortization	866,553	872,347
County indirect charges	428,647	378,044
Provision for doubtful accounts	161,934	137,600
Changes in assets and liabilities:		
Resident accounts receivable	950,187	(305,225)
Other receivable	12,829	(138,199)
Inventory	1,937	(301)
Due from third-party payors	(798,834)	(497,942)
Cash overdraft	1,244,211	-
Arbitrage liability	(176,713)	(92,568)
Prepaid expenses and other current assets	(7,085)	(137,321)
Accounts payable	(7,964)	(329,352)
Due to third-party payors	(383,611)	168,389
Accrued compensation	64,351	(151,230)
Accrued insurance	228,854	-
Accrued postemployment benefit obligation	<u>361,500</u>	<u>290,388</u>
Net cash flow from operating activities	<u>\$ (97,414)</u>	<u>\$ (1,459,139)</u>

The accompanying notes are an integral part of these statements.

STEUBEN COUNTY HEALTH CARE FACILITY (An Enterprise Fund of the County of Steuben, New York)

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. ORGANIZATION

Steuben County Health Care Facility (the Facility) is a public, 105-bed skilled nursing facility. The Home is owned by, operated as, and presented as an enterprise fund of the County of Steuben, New York (the County), a political sub-division of the State of New York. An enterprise fund is a proprietary type fund that uses the accrual basis of accounting and is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation), of providing goods or services are to be financed or recovered primarily through user charges.

The financial statements present only the Facility and do not purport to, and do not present fairly the financial position of the County of Steuben, New York, as of December 31, 2010 and 2009, and the changes in its net assets, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Facility has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting*. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and the proprietary fund financial statements to the extent they do not conflict or contradict the guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The Facility has elected to not follow subsequent private sector guidance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

GASB requires the classification of net assets into three components - invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- Unrestricted - This component of net assets consists of net assets that do not meet the definition of “invested in capital assets” or “restricted.”

When both restricted and unrestricted resources are available for use for the same purpose, the Facility uses restricted resources first and then unrestricted resources, as needed.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, bank demand deposit accounts, money market accounts, and all highly liquid investments with an original maturity of three months or less which, at times, may exceed federally insured limits. The Facility has not experienced any losses in such accounts. As a fund of the County, the Facility’s cash balances are covered by depository insurance at year-end or collateralized with securities held by the pledging financial institution, or its trust department or agent.

Operating Revenues and Expenses

The Facility’s statements of revenues, expenses, and change in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Facility’s principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Resident Accounts Receivable and Revenue

The Facility provides services to residents under agreements with third-party payors (primarily Medicare and Medicaid), whereby it is reimbursed under provisions of their respective reimbursement formulas. Final determination of the amounts earned is subject to review by third-party payors or their agents. Net resident service revenue is reported at estimated net realizable amounts from residents, Medicaid, Medicare, and other third-party payors for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and appeals. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and appeals. It is not possible to determine the extent of additional liabilities (or receivables) resulting from governmental audits conducted in subsequent years.

Credit is granted to all residents, the majority of whom are covered by third-party payor insurance coverage. Accounts for which no payments have been received for several months are considered delinquent, and when customary collection efforts are exhausted, the account is written off. The Facility records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is based on the Facility’s historical collection experience and a review of outstanding accounts. The Facility does not accrue interest on these receivables.

The Facility is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the financial statements for prior and current years’ estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment to net resident service revenue in the year the final settlement is determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resident Accounts Receivable and Revenue (Continued)

The laws and regulations governing the reimbursement for health care services are complex and subject to interpretation. Governmental review for compliance with these laws and regulations has increased, resulting in fines and penalties for noncompliance by individual health care providers or adjustments to amounts requested and recorded by the provider. While no outstanding regulatory inquiries existed at December 31, 2010 and 2009 for the Facility, that in the opinion of management would be material to its financial position or results of operations, compliance with these laws and regulations is subject to future interpretation, or actions.

Income Taxes

The Facility is an enterprise fund of the County and is consequently exempt from Federal and state income taxes.

Capital Assets

Capital assets are stated at cost if purchased or at fair market value at date of donation. Major renewals and betterments greater than \$500 are capitalized at cost, while replacements and maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Depreciation expense is recognized over the estimated useful lives of the respective assets using the straight-line method.

The cost of capital assets retired or otherwise disposed of and their related accumulated depreciation are removed from the accounts.

Resident Funds Held in Trust

The Facility acts as a custodian for resident funds. The funds are expended at the direction of the residents for personal items. Transactions involving receipt and disbursement of resident funds are not included in the operating results of the Facility.

Compensated Absences

Liabilities for compensated absences such as vacation are recorded when vested and earned by the employees and payment is not dependent upon a future event. The liabilities are recorded based on employees' rates of pay as of December 31, 2010 and 2009 and include all payroll related liabilities.

County Cost Allocation

The County incurs the costs of certain overhead services for the benefit of the Facility. These costs are included in operating expenses on the statements of revenues, expenses, and change in net assets and are detailed in Note 10.

Disadvantaged Facility Funding

In 2010, the Facility received disadvantaged facility funding from New York State in the form of Medicaid rate enhancements. These rate enhancements were determined by the New York State Department of Health under Chapter 58 of the New York State Laws of 2004 and are calculated based on the Facility's prior years' Medicaid cost report data. The Facility recognized revenue in 2010 from these rate enhancements of approximately \$400,000 for years prior to 2010. The Facility reported this funding as a component of net resident service revenue in the accompanying statements of revenues, expenses, and change in net assets in 2010 when such amounts were known and received. In 2009, the Facility did not receive any such funding.

Inventory

Inventory is stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis or market. Inventory consists of dietary, medical, office and maintenance supplies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Issuance Costs

Bond issuance costs have been capitalized using straight-line amortization over a period of 20 years, the term of the bonds. Bond issuance costs are reported net of accumulated amortization of \$19,221 and \$16,219 at December 31, 2010 and 2009, respectively.

Capitalization of Interest Cost

The Facility capitalizes the "net effect" of interest expense and interest revenue earned on externally restricted funds used to finance the acquisition/construction of a specified asset during the capitalization period. The interest expense component is the total interest on the debt during the capitalization period. The interest revenue is interest earned on the invested bond proceeds during the capitalization period. The capitalization period begins on the date of the borrowing and ends when the asset is ready for its intended use. The "net effect" of interest expensed and interest earned during the capitalization period will be depreciated over the useful life of the specified asset.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The Facility's policy is to record as a liability the estimated amount owed. During 2010 and 2009, the Facility hired an outside consultant to calculate the estimated arbitrage liability. During 2010 and 2009, the Facility made payments of \$170,713 and \$0, respectively. The Facility estimated arbitrage liability was approximately \$73,000 and \$250,000 at December 31, 2010 and 2009, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

3. RESIDENT ACCOUNTS RECEIVABLE

Resident accounts receivable consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Resident accounts receivable	\$ 1,979,925	\$ 2,930,660
Less: Allowance for doubtful accounts	<u>(872,221)</u>	<u>(710,835)</u>
	<u>\$ 1,107,704</u>	<u>\$ 2,219,825</u>

4. NET RESIDENT SERVICE REVENUE

Adjustments to previously recognized Medicaid revenue of approximately \$390,000 and \$3,000 for 2010 and 2009, respectively, are included in operating revenue in the statements of revenues, expenses and change in net assets.

The 2010 adjustment of prior years' revenue included revenues related to disadvantaged facility funding monies of approximately \$390,000.

The 2009 adjustment of prior years' revenue did not include any significant amounts.

Concentrations

For the year ended December 31, 2010, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 62% and 10%, respectively, of net resident service revenue. For the year ended December 31, 2009, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 59% and 13%, respectively, of net resident service revenue.

Contractual Allowances

Net resident service revenue is measured at established rates adjusted for third-party contractual allowances as follows at December 31:

	<u>2010</u>	<u>2009</u>
Gross resident service revenue	\$ 10,477,712	\$ 10,209,244
Less: Contractual allowances	<u>(1,423,526)</u>	<u>(990,625)</u>
	<u>\$ 9,054,186</u>	<u>\$ 9,218,619</u>

Intergovernmental Transfers

County-sponsored nursing homes in New York State receive additional Medicaid reimbursement known as Intergovernmental Transfer payments (IGT). Payments for this program are funded principally with local and federal funds. This provision results in a statewide rate enhancement to non-state operated public residential health care facilities for services provided. When estimable, IGT revenue is recorded when the Facility is entitled to receive it; otherwise, it is recorded on a cash basis. The Facility had recorded IGT revenue for the years ended December 31, 2010 and 2009 of \$0 and \$359,000, respectively.

New York State Cash Receipts Assessment

In April 2002, the State of New York approved a 6% assessment on nursing facilities' cash receipts, with the exception of Medicare cash receipts, to provide funding for workforce recruitment and retention awards authorized pursuant to Chapter 1 and subsequently amended by Chapter 82 of the Laws of 2002. A significant portion of this assessment is reimbursed to the Facility and is included in net resident service revenue. Total assessment expense for the years ended December 31, 2010 and 2009 was approximately \$461,000 and \$397,000, respectively, and is included in the accompanying statements of revenues, expenses and change in net assets.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Depreciable capital assets:					
Buildings	\$ 10,130,094	\$ -	\$ -	\$ -	\$ 10,130,094
Fixed equipment	7,098,331	-	-	-	7,098,331
Land improvements	1,056,160	-	-	-	1,056,160
Moveable equipment	<u>1,816,331</u>	<u>38,829</u>	<u>(5,489)</u>	<u>-</u>	<u>1,849,671</u>
Total depreciable capital assets	<u>20,100,916</u>	<u>38,829</u>	<u>(5,489)</u>	<u>-</u>	<u>20,134,256</u>
Total capital assets	<u>20,100,916</u>	<u>38,829</u>	<u>(5,489)</u>	<u>-</u>	<u>20,134,256</u>
Less: Accumulated depreciation:					
Buildings	570,988	254,197	-	-	825,185
Fixed equipment	406,031	397,955	-	-	803,986
Land improvements	63,288	42,328	-	-	105,616
Moveable equipment	<u>485,433</u>	<u>169,073</u>	<u>(2,744)</u>	<u>-</u>	<u>651,762</u>
	<u>1,525,740</u>	<u>863,553</u>	<u>(2,744)</u>	<u>-</u>	<u>2,386,549</u>
Capital assets, net	<u>\$ 18,575,176</u>	<u>\$ (824,724)</u>	<u>\$ (2,745)</u>	<u>\$ -</u>	<u>\$ 17,747,707</u>

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Depreciable capital assets:					
Buildings	\$ 10,125,063	\$ 5,031	\$ -	\$ -	\$ 10,130,094
Fixed equipment	7,089,086	9,245	-	-	7,098,331
Land improvements	1,053,118	3,042	-	-	1,056,160
Moveable equipment	<u>1,798,644</u>	<u>40,711</u>	<u>(23,024)</u>	<u>-</u>	<u>1,816,331</u>
Total depreciable capital assets	<u>20,065,911</u>	<u>58,029</u>	<u>(23,024)</u>	<u>-</u>	<u>20,100,916</u>
Total capital assets	<u>20,065,911</u>	<u>58,029</u>	<u>(23,024)</u>	<u>-</u>	<u>20,100,916</u>
Less: Accumulated depreciation:					
Buildings	316,934	254,054	-	-	570,988
Fixed equipment	8,538	397,493	-	-	406,031
Land improvements	21,062	42,226	-	-	63,288
Moveable equipment	<u>332,885</u>	<u>175,572</u>	<u>(23,024)</u>	<u>-</u>	<u>485,433</u>
	<u>679,419</u>	<u>869,345</u>	<u>(23,024)</u>	<u>-</u>	<u>1,525,740</u>
Capital assets, net	<u>\$ 19,386,492</u>	<u>\$ (811,316)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,575,176</u>

Depreciation expense was \$863,553 and \$869,345 for the years ended December 31, 2010 and 2009, respectively.

6. BONDS PAYABLE

In 2004 the Facility received authorization from the New York State Department of Health to construct a new health care facility. On August 15, 2005, the County, on behalf of the Facility, issued \$19,710,000 public improvement serial bonds to finance the construction of the new facility. The Facility's bonds payable consist of Public Improvement Serial Bonds, payable in annual principal installments through August 15, 2025. Interest is payable in semi-annual installments through August 15, 2025. Interest is charged at 4% through 2019, 4.125% for the year 2020 and 4.250% for the years 2021 through 2025. Bonds payable totaled \$16,230,500 and \$16,996,200 at December 31, 2010 and 2009, respectively.

The bonds are general obligations of the County collateralized by all taxable real property within the County subject to ad valorem taxes to pay the bonds and interest thereon, without limitation as to the rate or amount.

The repayment of these obligations is estimated as follows:

	<u>Principal</u>	<u>Interest</u>
2011	\$ 795,000	\$ 666,625
2012	830,000	634,825
2013 - 2017	4,710,000	2,647,325
2018 - 2022	5,795,000	1,615,613
2023 - 2025	<u>4,100,500</u>	<u>352,538</u>
	<u>\$ 16,230,500</u>	<u>\$ 5,916,926</u>

7. THIRD-PARTY REIMBURSEMENT

The Facility is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

In January 2010, the DOH issued revised skilled nursing facility Medicaid per diem rates retroactive to April 2009, based upon Chapter 109 of the laws of 2006, as modified by Chapters 2 and 58 of the laws of 2007 and 2009, respectively. Pursuant to the above statutes and other administrative interpretations, effective April 2009 the methodology used to develop the rates has changed and is no longer based on 1983 cost data and Patient Review Instrument (PRI) data. Instead, the financial and statistical data reflected in the 2002 residential health care facility cost report is the basis for these rates. In addition, the relative resource utilization group system of patient classification (RUG-III), used by the federal government, has been adopted by the DOH with certain modifications, and the case mix index (CMI), which is used to develop the rates, is based on the January 2009 assessment for Medicaid patients only. Once approved the January 2009 CMI will be updated based on the bi-annual RUG III assessment. The rates beginning May 2009 include an across-the-board adjustment in each facility's rates (proportionate to its Medicaid revenue relative to all other facilities) limiting the overall increase in statewide Medicaid rates due to rebasing (net of the overall rate decrease due to Medicaid-only CMI) to \$210,000,000. This adjustment is referred to as the "scaleback." At the current time, these rates have not been implemented, since the associated Medicaid state plan amendment is awaiting approval by CMS. After approval by CMS, the NYS Division of Budget approval will be needed to implement these rates.

7. THIRD-PARTY REIMBURSEMENT (Continued)

The Facility has recorded an estimated net receivable due from third-party payors of \$2,260,299 at December 31, 2010 and \$1,077,854 at December 31, 2009 primarily for amounts due from Medicaid for projected increases in the Medicaid reimbursement rates resulting from the filing of a base year cost report, Medicaid reimbursement system overhaul, disadvantaged facility funding, as well cash receipts assessment reconciliations. It is at least reasonably possible that the amount recorded will differ materially from the actual amount to be paid in the near term.

There were positive adjustments related to the above items to Medicaid revenue of approximately \$1,182,000 and \$1,241,000 for 2010 and 2009, respectively, included in resident service revenue in the statements of revenues, expenses, and change in net assets.

The 2010 adjustment included primarily net revenues related to the Facility's new base year reimbursement (approximately \$614,000), a cash receipts assessment reconciliation (approximately \$104,000), and the Medicaid reimbursement system overhaul (approximately \$464,000).

The 2009 adjustment included primarily net revenues related to the Facility's new base year reimbursement (approximately \$878,000), a cash receipts assessment reconciliation (approximately \$52,000), and the Medicaid reimbursement system overhaul (approximately \$311,000).

8. EMPLOYEE PENSION PLAN

Plan Description

Through the County, Facility employees participate in the New York State and Local Employees' Retirement System (the System), which is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and the amount of benefits to employees, are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY, 12244-0001.

Funding Policy

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first 10 years of participation. As a result of Article 19, of the Retirement and Social Security Law, eligible Tier 3 and Tier 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with a System, are not required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as a percentage of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The County is required to contribute to the system at an actuarially determined rate. The County's contribution made to the System was equal to 100% of the contributions required for 2010 and 2009. The Facility's portion of the County's required contribution for the current year and each of the preceding two years was approximately \$629,200, \$384,600, and \$391,900, respectively, and is included in employee benefits on the statements of revenues, expenses and change in net assets.

9. POST-EMPLOYMENT BENEFITS

Funding Policy

In addition to providing pension benefits, the County also provides certain health care benefits for retired employees, their dependents and certain survivors. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The Facility is liable for its allocated share of all health insurance expenses for Facility retirees.

The County (and Facility) currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis, with the possibility of pre-funding additional benefits if so determined and directed by the County. Third-party administrative costs are included in the calculated premium and allocated to the Facility based on enrollment. Internal County costs of administering the Plan are paid by the County.

Plan Description

The County provides continuation of medical insurance coverage to employees who retire under the System at the same time they end their service to the County. The plan is a single employer defined benefit other postemployment benefit (OPEB) plan (the Plan). Based on collective bargaining agreements, the retiree and his or her beneficiaries receive this coverage for the remainder of their lives.

Healthcare benefits for non-union employees are similar to those of union employees. The retirees' share of the calculated premium costs ranges from 50% to 100%, depending on the retirement date and length of service. In most instances, actual medical claims paid on behalf of retirees are self-funded by the County. The Plan does not currently issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions and the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Facility accounts for the costs of these benefits on the cash basis.

Schedule of Funding Progress for the Facility's Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a% of Covered Payroll (b-a)/(c)
1/1/2009	\$ -	\$3,271,400	\$ 3,271,400	0.0%	\$5,513,000	59%
1/1/2007	\$ -	\$2,557,600	\$ 2,557,600	0.0%	\$4,850,000	53%

Annual OPEB Cost and Net OPEB Obligation

The Facility's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

9. POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Facility's annual OPEB cost for the year:

	<u>2010</u>	<u>2009</u>
Normal cost	\$ 264,100	\$ 237,400
Amortization of UAAL (past service costs)	144,400	127,900
Interest	<u>-</u>	<u>-</u>
ARC	408,500	365,300
Interest on OPEB obligation	25,000	10,500
Adjustment on ARC	<u>(19,000)</u>	<u>(7,412)</u>
OPEB expense	<u>\$ 414,500</u>	<u>\$ 368,388</u>

The following table reconciles the Facility's OPEB obligation at December 31:

	<u>2010</u>	<u>2009</u>
Net OPEB obligation at beginning of year	\$ 499,388	\$ 209,000
Annual OPEB expense	414,500	368,388
Annual Facility OPEB contributions	<u>(53,000)</u>	<u>(78,000)</u>
Net OPEB obligation at end of year	<u>\$ 860,888</u>	<u>\$ 499,388</u>

The following table provides trend information for the Plan:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Cost Obligation</u>
2010	\$ 414,500	\$ 53,000	12.8%	\$ 860,888
2009	\$ 368,388	\$ 78,000	21.2%	\$ 499,388
2008	\$ 341,000	\$ 194,000	56.9%	\$ 209,000
2007	\$ 281,400	\$ 219,000	77.8%	\$ 62,400

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of calculations.

9. POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

In the December 31, 2009 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	5.0%
Medical care cost trend rate	5.8%, 8.1%, or 8.7% initially, based on age of employees and type of plan chosen. The rate is reduced by decrements each year to an ultimate rate of 4.7%.
Dental care cost trend rate	5% initially. The rate is reduced by decrements each year to an ultimate rate of 4.7%.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level percentage of pay
Amortization basis	Open

* As the plan is unfunded, the assumed discount rate considers that the Facility's investment assets are low risk in nature, such as money market funds or certificates of deposit.

10. RELATED PARTY TRANSACTIONS

The Facility's cash is combined and deposited with the County's and invested in accordance with the provisions of applicable New York State (the State) statutes. The County also has its own written investment policy. The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC insured commercial banks or trust companies located within the State. Permissible investments include obligations of the U.S. Treasury and its agencies, repurchase agreements, and obligations of the State. In accordance with existing policies, repurchase agreements are only entered into with banks or trust companies located within the State or with registered and primary reporting dealers in government securities. Underlying securities for repurchase transactions must be only obligations fully insured and guaranteed by the federal government.

Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Cash recorded by the Facility is combined with cash recorded by the County in determining amounts covered by Federal Depository Insurance or by collateral held by the County's agent in the County's name. The County Treasurer is responsible for ensuring the deposits are properly collateralized. As of December 31, 2010 and 2009, the County has reported that its deposits were adequately collateralized.

10. RELATED PARTY TRANSACTIONS (Continued)

The County incurs the cost of certain services for the benefit of the Facility. Accordingly, the amounts are reflected as costs of the Facility with a subsidy from the County to cover the related costs. These costs are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Clerk of the Board, purchasing, risk management and accounting departments	\$ 119,647	\$ 71,299
Data processing	119,786	131,886
Personnel	80,601	72,788
County Treasurer	71,591	65,382
County Administrator	<u>37,022</u>	<u>36,689</u>
	<u>\$ 428,647</u>	<u>\$ 378,044</u>

11. CONTINGENCIES

Regulatory Environment

The Facility is responsible to report to various third-parties/regulators, including the Center for Medicare and Medicaid Services, the New York State Department of Health (DOH), the New York State Office of Attorney General and the Internal Revenue Service.

Each of these third-parties has the ability to conduct audits, reviews, surveys and/or other investigations related to financial, operating and compliance matters. The Facility is subject to operational and compliance surveys by the DOH on a regular basis.

Estimated Third Party Settlements

Medicaid and Medicare reimbursed rates are subject to audit and retroactive rate adjustments by the New York State Department of Health and the Center for Medicare and Medicaid Services. Estimated third party settlements are included in the financial statements based upon the information available at year end. However, it is at least reasonably possible that those estimates will change during 2011 and future years as more information becomes available.

12. SELF-INSURANCE

The County has elected to be self-insured for workers' compensation, health insurance and other miscellaneous insurance policies as described below. Expenses and liabilities for claims are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The County bears responsibility for the liability and it is their policy to charge the Facility for its share of such claims when paid.

Workers Compensation

The County has elected to be self-insured for workers' compensation claims and accounts for this activity in an internal service fund. Other local municipalities, towns and villages within the County, are permitted to participate in the self-insured workers' compensation plan, and are joint and severally liable for their share of the plan's claims. Expenses recognized by the Facility during 2010 and 2009 for claims were \$417,794 and \$159,958, respectively. The County also carries excess claims coverage totaling \$750,000 per occurrence.

12. SELF-INSURANCE (Continued)

Health Insurance

Expenses recognized by the Facility during 2010 and 2009 were approximately \$1,302,000 and \$1,297,000, respectively.

Other Insurance

The County has also elected to be self-insured for general liability, malpractice, and automobile insurance. There are no expenses or accruals for claims related to the Facility during 2010 and 2009.